

**WESTERN KANE COUNTY SPECIAL
SERVICE DISTRICT #1**

**FINANCIAL STATEMENTS
with
REPORT OF INDEPENDENT AUDITORS**

**TWELVE MONTH PERIOD ENDING
DECEMBER 31, 2005**

WESTERN KANE COUNTY SPECIAL SERVICE DISTRICT #1
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Wilson & Company

Certified Public Accountants / A Professional Corporation

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees of the
Western Kane County Special Service District #1
Kanab, Utah 84741

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of Western Kane County Special Service District #1, a component unit of Kane County, as of and for the year ended December 31, 2005, which collectively comprise the basic financial statements of the District as listed in the table of contents. These financial statements are the responsibility of the Western Kane County Special Service District #1's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Western Kane County Special Service District #1, as of December 31, 2005, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2006 on our consideration of Western Kane County Special Service District #1's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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The management discussion & analysis as listed in the financial section of the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Western Kane County Special Service District #1's basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements of Western Kane County Special Service District #1. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


WILSON & COMPANY
Certified Public Accountants

Cedar City, Utah
June 8, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Western Kane County Special Service District #1, we offer readers of the financial statements this narrative discussion, overview, and analysis of the Special Service District #1's financial activities for the year ending December 31, 2005. We encourage readers to consider the information presented here as an overview of the operations of the Western Kane County Special Service District #1. This discussion and analysis is not intended to cover every aspect of the daily activities of the Western Kane County Special Service District #1.

Financial Highlights

- The assets of Western Kane County Special Service District #1 exceeded its liabilities as of the close of the most recent year by \$2,090,883 (*net assets*). Of this amount, \$1,410,295 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Special Service District's total net assets increased during the year by \$182,920.
- Western Kane County Special Service District #1's total debt increased by \$7,181 during the current year.
- The Special Service District has on deposit \$100,000 to meet estimated landfill post-closure costs. Post closure costs is estimated to be \$59,500.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Western Kane County Special Service District #1's basic financial statements. The Special Service District's basic financial statements are comprised of three components; the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows. This report also contains other supplementary information in addition to the basic financial statements themselves to give the reader an overall view of the Western Kane County Special Service District #1 as a whole. The financial statements are designed to provide readers with a broad overview of the Western Kane County Special Service District #1's finances, in a manner similar to a private-sector business.

Statement of Net Assets

The *statement of net assets* presents information on all of the assets and liabilities of the Western Kane County Special Service District #1, with the difference between assets and liabilities reported as *net assets*. *Net assets Invested in capital assets* are the fixed assets of the Special Service District #1 reduced by accompanying debt and accumulated depreciation. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Special Service District #1 is improving or deteriorating.

Condensed Statement of Net Assets and Comparison to FY 2003

	2004	2005
Current assets	\$ 1,380,870	\$ 1,540,267
Non-Current assets	<u>\$ 751,084</u>	<u>\$ 781,788</u>
Total assets	<u>\$ 2,131,954</u>	<u>\$ 2,322,055</u>
Current liabilities	\$ 164,491	\$ 171,672
Non-Current liabilities	<u>\$ 59,500</u>	<u>\$ 59,500</u>
Total liabilities	<u>\$ 223,991</u>	<u>\$ 231,172</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 527,093	\$ 680,588
Unrestricted	<u>\$ 1,380,870</u>	<u>\$ 1,410,295</u>
Total net assets	<u>\$ 1,907,963</u>	<u>\$ 2,090,883</u>

As noted earlier, net assets may serve over time as a useful indicator of an institution's financial position. In the case of the Western Kane County Special Service District #1's, assets exceeded liabilities by \$2,090,883 at the close of the most recent fiscal year but this represents a small decrease over the preceding year. A significant portion of the Special Service District #1's net assets of \$680,588, or 33%, reflects its investment in capital assets (e.g., land, buildings and improvements, and furniture and equipment), less any debt obligations under our capital lease used to acquire those assets that are still outstanding. The Special Service District #1 uses these capital assets to provide services to customers so, consequently, these assets are not available for future spending. The remaining balance of unrestricted net assets, \$1,410,295, may be used to meet the Special Service District #1's ongoing obligations to customers of the Service District.

Statement of Revenues, Expenses and Changes in Net Assets

This *statement of revenues, expenses and changes in net assets* presents information showing how the net assets of the Western Kane County Special Service District #1 changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The breakdown of "Operating" and Non-operating" categories are defined by accounting standards

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	<u>2004</u>	<u>2005</u>
Operating Revenues	\$ 618,634	\$ 682,102
Operating Expenses	<u>\$ 490,355</u>	<u>\$ 545,967</u>
Operating Income	\$ 128,279	\$ 136,135
Non-operating Revenue	<u>\$ 1,402</u>	<u>\$ 46,785</u>
Change in Net Assets	129,681	182,920
Net Assets-Beginning of Year	<u>\$ 1,778,282</u>	<u>\$ 1,907,963</u>
Net Assets - End of Year	<u>\$ 1,907,963</u>	<u>\$ 2,090,883</u>

Statement of Cash Flows

The *Statement of Cash Flows* provides an additional perspective of the Western Kane County Special Service District #1's financial results for the fiscal year. It provides a source and use of cash for broad categories of activities.

Condensed Statement of Cash Flows

	<u>2004</u>	<u>2005</u>
Cash provided (used) by:		
Operating Activities	\$ 363,648	\$ 226,427
Non-capital Financing Activities	\$ (26,267)	\$ 46,785
Capital Financing Activities	<u>\$ 21,397</u>	<u>\$ (136,311)</u>
Net Increase (Decrease) in Cash	358,778	136,901
Cash - Beginning of Year	<u>\$ 1,007,789</u>	<u>\$ 1,366,567</u>
Cash - End of Year	<u>\$ 1,366,567</u>	<u>\$ 1,503,468</u>

Notes to the financial statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found at the end of this report.

This financial report is designed to provide a general overview of the Western Kane County Special Service District #1's finances for all those with an interest in government finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Nyle W. Willis, CPA Chief financial officer, Western Kane County Special Service District #1, 28 North Main Street, Kanab, Utah 84741.

WESTERN KANE COUNTY SPECIAL SERVICE DISTRICT #1

Statement of Net Assets

December 31, 2005

	Business-type Activities	
	2005	(Memorandum Only) 2004
ASSETS		
Current Assets:		
Cash	1,503,468	1,366,567
Accounts Receivable	36,799	14,303
Other Receivables		
Total Current Assets	<u>1,540,267</u>	<u>1,380,870</u>
Non-Current Assets:		
Deposits	1,200	1,200
Long-term Investments	100,000	200,000
Capital Assets, Net of Accumulated Depreciation	<u>680,588</u>	<u>549,884</u>
Total Non-Current Assets	<u>781,788</u>	<u>751,084</u>
Total Assets	<u>2,322,055</u>	<u>2,131,954</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	12,180	7,562
Taxes Payable	2,467	3,554
Retirement Payable		
Unearned Income	<u>157,025</u>	<u>153,375</u>
Total Current Liabilities	<u>171,672</u>	<u>164,491</u>
Non-Current Liabilities:		
Estimated closure and post closure costs	<u>59,500</u>	<u>59,500</u>
Total Non-Current Liabilities	<u>59,500</u>	<u>59,500</u>
Total Liabilities	<u>231,172</u>	<u>223,991</u>
Net Assets		
Invested in capital assets, net of related debt	680,588	527,093
Unrestricted	<u>1,410,295</u>	<u>1,380,870</u>
Total net assets	<u>2,090,883</u>	<u>1,907,963</u>

WESTERN KANE COUNTY SPECIAL SERVICE DISTRICT #1
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDING DECEMBER 31, 2005

	Business-type Activities	
		(Memorandum Only)
	2005	2004
OPERATING REVENUE:		
Charges for Services	682,102	618,634
TOTAL OPERATING REVENUE	682,102	618,634
OPERATING EXPENSES:		
Collection Fees	11,709	7,202
Supplies	7,140	7,336
Transmission Fees	21,177	24,363
Truck & Equipment	97,995	68,792
Advertising & Promotion	2,665	796
Depreciation	105,607	101,302
Directors Fees	2,900	3,500
Dues & Subscriptions	50	146
Employee Benefits	45,789	44,999
Insurance	43,443	44,883
Legal & Accounting	4,123	3,803
Office Expense	13,941	9,646
Payroll Taxes	3,000	3,075
Rent Expense	10	10
Repairs & Maintenance	893	5,351
Salaries & Wages	167,962	146,029
Telephone	654	773
Travel	447	
Utilities	16,417	18,274
Miscellaneous	45	75
TOTAL OPERATING EXPENSES	545,967	490,355
OPERATING INCOME (LOSS)	136,135	128,279
NONOPERATING REVENUES (EXPENSES):		
Interest Revenue	46,785	21,397
Estimated closure and post closure costs		(19,995)
TOTAL NONOPERATING REVENUES (EXPENSES):	46,785	1,402
Increase (Decrease) in Net Assets	182,920	129,681
TOTAL NET ASSETS - BEGINNING OF YEAR	1,907,963	1,778,282
TOTAL NET ASSETS - ENDING OF YEAR	2,090,883	1,907,963

WESTERN KANE COUNTY SPECIAL SERVICE DISTRICT #1

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDING DECEMBER 31, 2005

	Business-type Activities	
		(Memorandum Only)
	2005	2004
Cash Flows From Operating Activities		
Payments from service users	663,256	782,859
Payments to suppliers	(223,078)	(222,587)
Payments to employees	(213,751)	(196,624)
Net cash provided by operating activities	226,427	363,648
Cash Flows From Capital and Related Financing Activities		
Long-term investments	100,000	
Purchases of capital assets	(236,311)	(26,267)
Net cash flows from Capital and Related Financing activities	(136,311)	(26,267)
Cash Flows From Non-capital financing activities		
Interest Earned	46,785	21,397
Net cash flows from Non-capital financing activities	46,785	21,397
Net Increase (Decrease) in Cash	136,901	358,778
Cash - January 1	1,366,567	1,007,789
Cash - December 31	1,503,468	1,366,567
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income (loss)	136,135	128,279
Adjustments to Reconcile Net Income to Net Cash Provided by Operations:		
Depreciation	105,607	101,302
Changes in Operating Assets and Liabilities:		
(Increase) Decrease in Receivables	(22,496)	166,902
Accounts Payable	4,618	(22,582)
Retirement Payable		(2,096)
Taxes Payable	(1,087)	(5,481)
Unearned Income	3,650	(2,676)
Increase (Decrease) in Operating Assets	(15,315)	134,067
Net cash provided by operating activities	226,427	363,648

WESTERN KANE COUNTY SPECIAL SERVICE DISTRICT #1
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Western Kane County Special Service District #1 conform to generally accepted accounting principles in the United States of America as applicable to government units.

The Western Kane County Special Service District #1 is organized under the laws of the State of Utah. The District operates under a board of directors and provides solid waste and television services to the residents of the District.

A. Reporting Entity

No component units exist as of December 31, 2005. However, the District is included for reporting purposes as a component unit of Kane County, Utah.

B. Financial Statement Presentation

In June 1999, GASB approved Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments". The financial statement presentation required by GASB No. 34 provides a comprehensive, entity-wide perspective of the District's assets, liabilities, net assets, revenues, expenses, and changes in net assets, and cash flows replacing the fund-group perspective previously required.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Under the provisions of the GASB standards, the District is permitted to report as a special purpose government engaged in business-type activities (BTA). BTA reporting requires the District to present only the basic financial statements and the required supplemental information (RSI) for an enterprise fund. This includes a management discussion and analysis, a statement of net assets or balance sheet, a statement of revenues, expenses, and changes in net assets, a statement of cash flows, notes to the financial statements, and other applicable RSI. The required basic financial statements above are prepared using the economic measurement focus and the accrual basis of accounting.

The financial statements of the Western Kane County Special Service District #1 are based on all applicable Government Accounting Standards Board (GASB) pronouncements as well as applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Review Boards of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB Pronouncements. FASB pronouncements issued after

WESTERN KANE COUNTY SPECIAL SERVICE DISTRICT #1
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

November 30, 1989 are not followed in the preparation of the accompanying financial statements. The more significant of the District's accounting policies are described below.

D. Cash Equivalents

The District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the Utah Public Treasurers' Investment Fund are also considered cash equivalents.

E. Capital Assets

Capital assets include property, and plant equipment. Capital assets are defined by the District as assets with an initial unit cost of \$2,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the District are depreciated using the straight-line method over the following useful lives (see Note 2 for further detail).

<u>Assets</u>	<u>Years</u>
Buildings	40
Furniture	10
Equipment	5-10

F. Operating Revenues and Expenses

The statement of revenues, expenses, and changes in net assets distinguishes between operating and non-operating revenues. For this purpose, operating revenues, such as user fees, result from exchange transactions associated with the principal activities of the District. Exchange transactions are those in which each party to the transactions receives or gives up essentially equal values. Nonoperating revenues arise from exchange transactions not associated with the Districts principal activities (such as investment income) and from all nonexchange transactions (such as grants).

G. Net Assets

The College's net assets are classified as follows:

WESTERN KANE COUNTY SPECIAL SERVICE DISTRICT #1
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

Invested in capital assets, net of related debt: This represents the District's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets.

Restricted - expendable: Restricted expendable net assets include resources which the District is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted: Unrestricted net assets represent resources derived from user fees and intergovernmental appropriations. These resources are used for transactions relating to the solid waste and television activities of the District, and may be used at the discretion of the governing board to meet current expenses for any legal purpose.

D. Federal Financial Assistance Programs

The District received no Federal monies during the year. Consequently, the Single Audit Act of 1984 as amended in 1996 does not apply.

NOTE 2. CAPITAL ASSETS

	CAPITAL ASSETS NOT DEPRECIATED		CAPITAL ASSETS DEPRECIATED	
	Land	Buildings	Furniture, Machinery, and Equipment	Totals
Primary Government				
<i>Business-type Activities</i>				
Balance, January 1,	\$86,027	\$101,297	\$1,646,353	\$1,807,410
Increases		848	235,463	236,311
Decreases				
Balance December 31,	86,027	102,145	1,881,816	2,069,988
Accumulated Depreciation				
Balance January 1,		58,439	1,225,354	1,283,793
Increased		2,901	102,706	105,607
Decreased				
Balance December 31,		61,340	1,328,060	1,389,400
Capital Assets, Net	\$86,027	\$40,805	\$553,756	\$680,588

WESTERN KANE COUNTY SPECIAL SERVICE DISTRICT #1
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The District maintains a cash and investment pool, which includes the cash account and several investments.

Deposits and investments for local governments are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council").

The District's deposit and investment policy is to follow the Utah Money Management Act and rules of the Utah Management Council. However, the District does not have a separate deposit or investment policy that addresses specific types of deposit and investment risks to which the District is exposed.

Utah State law requires that District funds be deposited with a "qualified depository" as defined by the Utah Money Management Act. "Qualified depository" includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements as defined in Rule 11 of the Utah Money Management Act. Rule 11 establishes the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and defines capital requirements which an institution must maintain to be eligible to accept public funds.

The Utah Money Management Act also governs the scope of securities allowed as appropriate temporary investments for the County and conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

As of December 31, 2005, the District had the following deposits and investments:

WESTERN KANE COUNTY SPECIAL SERVICE DISTRICT #1
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 3. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

<u>Deposit and investment type</u>	<u>Fair Value</u>
Cash on deposit	\$ 173,648
State Treasurer's investment pool	<u>1,426,821</u>
	<u>\$ 1,603,469</u>
<u>Reported on the financial statements as follows</u>	
Cash and cash equivalents	\$ 1,503,468
Long-term investments	<u>100,000</u>
	<u>\$ 1,603,469</u>

The following paragraphs discuss the District's exposure to various risks related to its cash management activities.

Custodial Credit Risk

Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be recovered. The District's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the District to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of December 31, 2005, \$73,648 of the District's bank balances of \$173,648 were uninsured and uncollateralized.

Investments. Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk of investments. The District's investment in the Utah Public Treasurer's Investment Fund has no custodial risk.

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The District's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified

dealers, or directly with issuers of the investment securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as "first-tier" by two nationally recognized statistical rating

WESTERN KANE COUNTY SPECIAL SERVICE DISTRICT #1
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 3. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

organizations, one of which must be Moody's Investor Services or Standard & Poors; bankers acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bonds and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and variable rate securities rated "A" or higher by two nationally recognized statistical rating organizations as defined in the Act.

The District is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

Following are the District's investments at December 31, 2005.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Quality Ratings</u>
PTIF	\$1,426,821	less than 1 year	not rated

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The District manages its exposure to declines in fair value by solely investing in the PTIF and by adhering to the Money Management Act. The Act requires that the investing remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity of commercial paper to 270 days or less and fixed rate negotiable deposits and corporate obligations to 365 days or less. Maturities of the County's investments are noted above.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy to limit this risk is to adhere to the rules of the Money Management Council. The Council's rule 17 limits investments in a single issuer of commercial paper and corporate obligations to between 5 and 10 percent depending upon the total dollar amount held in the District's portfolio at the time of purchase.

As of year end, the District had no investments other than an investment in the Utah Public Treasurer's Investment Fund.

WESTERN KANE COUNTY SPECIAL SERVICE DISTRICT #1
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 4. RISK MANAGEMENT:

The Western Kane County Special Service District #1 is subject to various types of risk such as tort actions, theft, damage, or destruction of assets by intent or acts of God, and job related illness or injury. The Western Kane County Special Service District #1 has procured insurance which, in Western Kane County Special Service District #1's estimation, is adequate to reduce the risk of loss to a manageable level.

NOTE 5: UNEARNED INCOME:

In November 2005, the District assessed annual solid waste collection fees for unincorporated areas of the county through the Kane County Treasurer. These annual assessments less rebates are recognized as revenues over the year as services are performed by the District. The balance of unearned assessments as of December 31, 2005 is \$157,025. This amount will be recognized as revenue as services are performed by the District during the year.

NOTE 6: DEFINED BENEFIT PENSION PLAN:

Plan Description. Western Kane County Special Service District #1 contributes to the Local Governmental Noncontributory Retirement System for employers with (without) Social Security coverage cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, Public Safety Retirement System for employers with (without) Social Security coverage, and Firefighters Retirement System which are for employers with (without) Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. In the Local Governmental Noncontributory Retirement System, Western Kane County Special Service District #1 is required to contribute 11.09% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board. Western Kane County Special Service District #1

contributions to the Local Governmental Noncontributory Retirement System for the years ending December 31, 2005, 2004 and 2003 were \$14,587, \$13,601, and \$12,124 respectively. The contributions were equal to the required contributions for each year.

WESTERN KANE COUNTY SPECIAL SERVICE DISTRICT #1
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 7: LONG-TERM INVESTMENTS:

The District maintains a long-term investment of \$100,000 in the Utah State Treasurer's Investment Pool. The intent of this investment is for the purpose of "potential" future site closing and reclamation costs.

NOTE 8. LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS

The District has estimated closure and post-closure care costs for landfills located within the Service District to be \$59,500. The nature and source of these costs as estimated by the District are described below as well as other pertinent information concerning the landfills.

As of the date of this report, the District had not been notified of any corrective actions that need to be taken towards the landfills.

Total estimated closure and post-closure care costs of \$59,500 have been reflected in the District's Solid Waste Fund liabilities as "estimated closure and post closure costs".

Closure Costs:	Kanab	Valley	Total
Cover material	\$ 15,000	\$ 10,000	\$25,000
Engineering	2,000	1,000	3,000
Quality control	1,000	500	1,500
Total Closure Costs	18,000	11,500	29,500

Post-Closure Costs:

Vegetative cover	1,000	500	1,500
Soil cover	8,000	6,000	14,000
Contingencies	1,500	1,000	2,500
Reports	6,000	6,000	12,000
Total Post-Closure Costs	16,500	13,500	30,000
Total Costs	\$ 34,500	\$ 25,000	\$ 59,500

WESTERN KANE COUNTY SPECIAL SERVICE DISTRICT #1
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 8. LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS -CONTINUED:

To date, the District has not incurred any closure or post-closure care costs. The total estimated costs to be recognized remains at \$59,500.

Estimated landfill capacity used to date based on the District's estimates are as follows:

Kanab	15%
Valley	25%

The District estimates the useful life of each landfill as follows:

Kanab	50 plus years
Valley	40 years

WESTERN KANE COUNTY SPECIAL SERVICE DISTRICT #1
COMBINING STATEMENT OF NET ASSETS - ALL
PROPRIETARY FUND TYPES
December 31, 2005

	Proprietary Fund Types		Totals (Memorandum Only)	
	Solid Waste Fund	Television Fund	December 31, 2005	December 31, 2004
ASSETS				
Current Assets:				
Cash	1,104,627	398,841	1,503,468	1,366,567
Accounts Receivable	27,387	9,412	36,799	14,303
Other Receivables				
Total Current Assets	<u>1,132,014</u>	<u>408,253</u>	<u>1,540,267</u>	<u>1,380,870</u>
Non-Current Assets:				
Land	60,581	25,446	86,027	86,027
Buildings	59,593	42,552	102,145	101,297
Furniture & Fixtures	423		423	423
Containers	238,766		238,766	211,778
Translator Equipment		341,122	341,122	337,322
Trucks & Equipment	1,275,611		1,275,611	1,070,936
Fence & Improvements	25,894		25,894	25,894
Accumulated Depreciation	(1,037,019)	(352,381)	(1,389,400)	(1,283,793)
Deposits	1,200		1,200	1,200
Long-term Investments	100,000		100,000	200,000
Total Non-Current Assets	<u>725,049</u>	<u>56,739</u>	<u>781,788</u>	<u>751,084</u>
Total Assets	<u>1,857,063</u>	<u>464,992</u>	<u>2,322,055</u>	<u>2,131,954</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	11,065	1,115	12,180	7,562
Taxes Payable	2,467		2,467	3,554
Retirement Payable				
Unearned Income	157,025		157,025	153,375
Total Current Liabilities	<u>170,557</u>	<u>1,115</u>	<u>171,672</u>	<u>164,491</u>
Non-Current Liabilities:				
Estimated closure and post closure costs	59,500		59,500	59,500
Total Non-Current Liabilities	<u>59,500</u>		<u>59,500</u>	<u>59,500</u>
Total Liabilities	<u>230,057</u>	<u>1,115</u>	<u>231,172</u>	<u>223,991</u>
Net Assets				
Invested in capital assets, net of related debt	623,849	56,739	680,588	527,093
Unrestricted	1,003,157	407,138	1,410,295	1,380,870
Total net assets	<u>1,627,006</u>	<u>463,877</u>	<u>2,090,883</u>	<u>1,907,963</u>

WESTERN KANE COUNTY SPECIAL SERVICE DISTRICT #1
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS - ALL PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDING DECEMBER 31, 2005

	Proprietary Fund Types		Totals (Memorandum Only)	
	Solid Waste Fund	Television Fund	December 31, 2005	December 31, 2004
OPERATING REVENUE:				
Charges for Services	610,393	71,709	682,102	618,634
TOTAL OPERATING REVENUE	610,393	71,709	682,102	618,634
OPERATING EXPENSES:				
Collection Fees	7,152	4,557	11,709	7,202
Supplies	6,565	575	7,140	7,336
Transmission Fees		21,177	21,177	24,363
Truck & Equipment	97,995		97,995	68,792
Advertising & Promotion	2,665		2,665	796
Depreciation	95,719	9,888	105,607	101,302
Directors Fees	2,900		2,900	3,500
Dues & Subscriptions	50		50	146
Employee Benefits	45,789		45,789	44,999
Insurance	43,443		43,443	44,883
Office Expense	4,114	9	4,123	3,803
Payroll Taxes	13,941		13,941	9,646
Professional Fees	3,000		3,000	3,075
Rent Expense	10		10	10
Repairs & Maintenance	893		893	5,351
Salaries & Wages	158,362	9,600	167,962	146,029
Telephone	654		654	773
Travel	447		447	
Utilities	5,072	11,345	16,417	18,274
Miscellaneous	45		45	75
TOTAL OPERATING EXPENSES	488,816	57,151	545,967	490,355
OPERATING INCOME (LOSS)	121,577	14,558	136,135	128,279
NONOPERATING REVENUES (EXPENSES):				
Interest Revenue	36,841	9,944	46,785	21,397
Estimated closure and post closure costs				(19,995)
TOTAL NONOPERATING REVENUES (EXPENSES)	36,841	9,944	46,785	1,402
Increase (Decrease) in Net Assets	158,418	24,502	182,920	129,681
TOTAL NET ASSETS - BEGINNING OF YEAR	1,468,588	439,375	1,907,963	1,778,282
TOTAL NET ASSETS - ENDING OF YEAR	1,627,006	463,877	2,090,883	1,907,963

WESTERN KANE COUNTY SPECIAL SERVICE DISTRICT #1
COMBINING STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDING DECEMBER 31, 2005

	Proprietary Fund Types		Totals (Memorandum Only)	
	Solid Waste Fund	Television Fund	December 31, 2005	December 31, 2004
Cash Flows From Operating Activities				
Payments from service users	599,963	63,293	663,256	782,859
Payments to suppliers	(185,664)	(37,414)	(223,078)	(222,587)
Payments to employees	(204,151)	(9,600)	(213,751)	(196,624)
Net cash provided by operating activities	<u>210,148</u>	<u>16,279</u>	<u>226,427</u>	<u>363,648</u>
Cash Flows From Capital and Related Financing Activities				
Long-term investments	100,000		100,000	
Purchases of capital assets	<u>(232,511)</u>	<u>(3,800)</u>	<u>(236,311)</u>	<u>(26,267)</u>
Net cash flows from Capital and Related Financing activities	<u>(132,511)</u>	<u>(3,800)</u>	<u>(136,311)</u>	<u>(26,267)</u>
Cash Flows From Investing Activities				
Interest Earned	<u>36,841</u>	<u>9,944</u>	<u>46,785</u>	<u>21,397</u>
Net cash flows from investing activities	<u>36,841</u>	<u>9,944</u>	<u>46,785</u>	<u>21,397</u>
Net Increase (Decrease) in Cash	<u>114,478</u>	<u>22,423</u>	<u>136,901</u>	<u>358,778</u>
Cash - January 1	<u>990,149</u>	<u>376,418</u>	<u>1,366,567</u>	<u>1,007,789</u>
Cash - December 31	<u><u>1,104,627</u></u>	<u><u>398,841</u></u>	<u><u>1,503,468</u></u>	<u><u>1,366,567</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	121,577	14,558	136,135	128,279
Adjustments to Reconcile Net Income to Net Cash Provided by Operations:				
Depreciation	95,719	9,888	105,607	101,302
Changes in Operating Assets and Liabilities:				
(Increase) Decrease in Receivables	(14,080)	(8,416)	(22,496)	166,902
Accounts Payable	4,369	249	4,618	(22,582)
Retirement Payable				(2,096)
Taxes Payable	(1,087)		(1,087)	(5,481)
Unearned Income	3,650		3,650	(2,676)
Increase (Decrease) in Operating Assets	<u>(7,148)</u>	<u>(8,167)</u>	<u>(15,315)</u>	<u>134,067</u>
Net cash provided by operating activities	<u><u>210,148</u></u>	<u><u>16,279</u></u>	<u><u>226,427</u></u>	<u><u>363,648</u></u>

Wilson & Company

Certified Public Accountants / A Professional Corporation

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Trustees of the
Western Kane County Special Service District #1
Kanab, Utah 84741

We have audited the financial statements of the Western Kane County Special Service District #1 as of and for the year ended December 31, 2005, and have issued our report thereon dated June 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Western Kane County Special Service District #1's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Western Kane County Special Service District #1 in a separate letter dated June 8, 2006.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Western Kane County Special Service District #1's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Western Kane County Special Service District #1
Page 2

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Western Kane County Special Service District #1 in a separate letter dated June 8, 2006.

This report is intended solely for the information and use of the Western Kane County Special Service District #1 and certain legislative bodies. However, this report is a matter of public record and its distribution is not limited.


WILSON & COMPANY
Certified Public Accountants

Cedar City, Utah
June 8, 2006

Wilson & Company

Certified Public Accountants / A Professional Corporation

WESTERN KANE COUNTY SPECIAL SERVICE DISTRICT #1 INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE FISCAL LAWS

The Board of Trustees of the
Western Kane County Special Service District #1
Kanab, Utah 84741

We have audited the general purpose financial statements of the Western Kane County Special Service District #1, for the year ended December 31, 2005 and have issued our report thereon dated June 8, 2006. Our audit included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Truth in taxation & Property
- Tax Limitations
- Special Districts
- Other General Compliance
- Requirements

The District did not receive any major or non-major State grants during the year ended December 31, 2005.

The management of the Western Kane County Special Service District #1, is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with the requirements. We believe that our audit provides a reasonable basis for our opinion.

An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

Western Kane County Special Service District #1
Page 2

In our opinion the Western Kane County Special Service District #1 complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2005.


WILSON & COMPANY
Certified Public Accountants

Cedar City, UT
June 8, 2006

Wilson & Company

Certified Public Accountants / A Professional Corporation

The Honorable Board of Directors
Western Kane County Special Service District #1
P. O. Box 36
Kanab, Utah 84741

We have completed our examination of the records of Western Kane County Special Service District #1 for the year ended December 31, 2005. As part of our engagement, we offer the following recommendations for strengthening internal accounting controls and improving accounting procedures.

In considering the findings and recommendations in this letter, it is important to recognize that a letter of this type is intended to be constructive in nature and its purpose is to point out areas for improvement. The absence of comment of a positive or complimentary nature is not intended to imply that the District operates in an inefficient or unsound manner.

Condition:

Landfill Cash Receipts:

We noted that cash receipts were not always deposited within three days of receipt. This situation relates primarily to collections at the remote waste site locations.

Recommendation:

We recommend that the District make deposits for these remote collections at least twice each week. In addition, we recommend that the District continue its efforts to safeguard collections until deposit.

Condition:

2 Signatures on Checks:

We noted during our audit that paid checks did not always have 2 signatures as required by District purchasing policy. We noted 2 checks processed during the year that only had one signature.

Recommendation:

We recommend that the District obtain 2 signatures on all checks as required by District policy.

We appreciate the opportunity to serve the District as independent auditors, and would like to thank both appointed officials and District employees for being so helpful during our examination. If we can be of further service or if additional information is required as to items covered in this letter, we would be pleased to meet with you.


WILSON & COMPANY
Certified Public Accountants

June 8, 2006

WESTERN KANE COUNTY
SPECIAL SERVICE DISTRICT NO. 1

P.O. BOX 36
28 NORTH MAIN STREET
KANAB, UT 84741
(435) 644-5089

July 31, 2006

Scott Wilson
Wilson & Company
P.O. Box 1110
Cedar City, UT 84721-1110

Dear Mr. Wilson:

Thank you for your efforts in auditing the Western Kane County Special Service District No. 1. for the calendar year, 2005. This letter is in response to the evaluations made in your management letter for the above period.

Landfill cash receipts: We agree that good accounting practices and financial compliance require depositing cash receipts timely. The only cash not being deposited on a timely basis by the Service District are the cash collections being received at the remote landfill sites. Most transactions made at the landfill sites are charged to customer's accounts and are billed along with other services at the end of the month. The cash collected at the landfills, usually less than \$ 400.00 monthly, is maintained in a change fund until deposited monthly. We believe that our cash and accounting procedures adequately safeguard those cash funds and that the accumulated amount does not warrant a change in deposit procedures at the present time.

Signatures on checks: We agree that all checking accounts require two signatures on every check. I was informed by a bank employee that if a check with only one signature is presented for payment on a two signature required account, and if the amount on the check is below a certain threshold, they will call another person on the signature card and verify the check. Our internal control policy requires that all District checking accounts require two signatures for withdrawal. We will follow that policy.

We appreciate your suggestions and will implement them as stated above.

Sincerely,



Nyle W. Willis, CPA
Treasurer